



**PUBLIC UTILITIES
REVENUE BOND OVERSIGHT COMMITTEE
CONTRACTING WORKING GROUP
CITY AND COUNTY OF SAN FRANCISCO
AGENDA**

**Public Utilities Commission Building
525 Golden Gate Ave., 4th Floor, San Antonio Room
San Francisco, CA 94102**

Wednesday, July 31, 2013 - 9:30 AM

Special Meeting

If a quorum of the Public Utilities Revenue Bond Oversight Committee (RBOC) members is present, the chair will hold a Special meeting of the RBOC to discuss items on this Contracting Working Group Agenda.

1. Call to Order and Roll Call

John Ummel, Chair
Kevin Cheng
Holly Kaufman

- 2. Public Comment:** Members of the public may address the Revenue Bond Oversight Committee Contracting Working Group on matters that are within the RBOC's jurisdiction, but not on today's agenda. (No Action)

3. Future Revenue Bond Oversight Committee Audit Activities
(Discussion and Action)(Attachment)

Issue/Action: The RBOC received RW Block's major report. Recommendations in this report as well as additional suggested audit activities have been forwarded by Mr. Block. In addition, the City Services Auditor (CSA) is in the process of finalizing a scope of work for an audit of the Sunol Valley Water Treatment Plant. Finally, WSIP Director Julie Labonte was asked to opine on RW Block's recommendations and suggest possible follow-up activities. The RBOC has asked the Contracting Working Group to review potential audit activities and bring forth recommendations to the RBOC at a future meeting.

- 4. Approval of RBOC Contracting Working Group Minutes of March 18, 2013.**
(Discussion and Action) (Attachment)

- 5. Future Agenda Items/Meeting Dates.** (Discussion and Action)

6. **Adjournment**

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RBOC Agenda Item #4

Discussion Involving Additional Follow-Up Work/Audits Assigned by RBOC

Issue: RBOC needs to begin planning its next assignments/audits. In addition to brainstorming what follow-up assignments are in order/would add value, the committee needs to decide if it plans to use the Contract Working Group (currently comprised of Ummel, Cheng, and Kaufman) to prioritize potential assignments and develop applicable scopes of work and cost estimates.

Background: RBOC recently completed one of its most extensive reviews of the WSIP program, culminating in a report by RW Block, *Evaluation of the Water System Improvement Program, Project CS-254*. That report, approved by RBOC at its May 2013 meeting, included the following major findings or observations:

- That the WSIP will not be finished on time and within budget as of the September 30, 2012 data date and corresponding approved budget at the time (\$4.585M) with an end date of July 26, 2016.
- The existing methods used by the WSIP management team to forecast cost and schedule to completion are both reliable and realistic. Based on a review of five mega projects, RW Block's independent estimate for costs at completion found the SFPUC's forecasts to be within 3% of the SFPUC's (then) latest estimates.
- Soft costs forecasted to complete WSIP have exceeded the current budget and the ratio of soft costs to construction spending is forecast to increase above historical levels.

Since the issuance of the Block report, the SFPUC has revised the WSIP schedule and budget; now estimated at \$4,640 million with completion of the program by April 2019. It should be noted, however, that all but two projects within the WSIP are anticipated to be completed by July, 2016. The two projects that extend the overall completion date to April 2019 are the Calaveras Dam Replacement and the Alameda Creek Recapture projects.

Recommended follow-up work/actions in the RW Block report included:

- An evaluation of the possibility of reducing soft costs by eliminating the regional program management structure;
- A re-evaluation of projected staffing levels for Calaveras Dam and the Harry Tracy Treatment Plant projects;
- An evaluation of monthly program management efforts to reconcile all project expenditures versus a less frequent process;
- A reconciliation of forecast soft costs to complete the WSIP compared to historical performance as well as a reconciliation of WSIP's bottom-up analysis to their top down staffing model using average annual staffing costs.

In addition to the above recommended actions found in the report, RBOC asked Mr. Block to either expand or identify potential follow-up tasks that RBOC might consider. Mr. Block has provided a brief description of four possible tasks as well as an estimate of duration and budget. Please see the attached.

Furthermore, RBOC inquired whether any planned audits of WSIP related work by the City Services Auditor (CSA) might have relevance to RBOC and whether RBOC might want to "piggyback" on any such audits. Nancy Hom, Division of Internal Audits, has provided an update of CSA audits (see attached) and will be present at Monday's meeting.

Finally, RBOC asked WSIP director, Julie Labonte, to provide a brief response to the recommendations cited in the RW Block report. Julie's comments can be found in the attached. Furthermore, Julie will be present at Monday's meeting to provide her perspective on what future activities RBOC may want to explore.

The above information and presentations (Hom and Labonte) are designed to help further RBOC's discussion on "What should we do next"? Please keep in mind that future work contemplated by RBOC need not/should not confine itself to the WSIP program. RBOC's oversight responsibilities extend to capital projects undertaken by Hetch Hetchy as well as the Waste Water Program (SSIP).

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Follow-Up Activities for RBOC Suggested by RW Block

1. APPLICABILITY OF WSIP SOFT COSTS/PROGRAM DELIVERY STRUCTURE TO SSIP (Sewer System Improvement Program)

ABSTRACT: This effort aims to provide RBOC with an overview of WSIP program delivery costs, structure, and practices with the aim of evaluating how such may be applicable to the WSIP's follow-on capital program, the SSIP. Under this project, a detailed analysis of soft costs incurred in WSIP and applications to SSIP would be performed including how program management, regional, project and city department soft costs were allocated, procured and used. Under the WSIP, the program management structure assumed a high level of oversight in program management, project management, construction management and city department. Moving forward would a similar structure (and resulting cost) make sense? How could the SSIP be structured (from a management perspective) to leverage resources and achieve a more lean approach to project delivery (where feasible). What are the SSIP attributes? How can the most appropriate program delivery structure be assembled to ensure optimal budgetary and schedule results? This effort will require the consultant to hold interviews with senior and executive managers of both programs, contractors, and, where applicable, stakeholders, to better understand contextual factors that led to existing WSIP program delivery structure and, where developed, proposed SSIP program delivery structure. Other activities to be performed include evaluation of existing systems (functional and resource requirements) and key core processes to understand their impact on program delivery resource levels.

ESTIMATED DURATION: 3 month effort

ESTIMATED BUDGET: \$100,000

2. EVALUATION OF PROJECT DATA REQUIREMENTS AND IMPACTS ON SOFT COSTS

ABSTRACT: This project entails the evaluation of data requirements for program administration and its impacts on soft costs. Included in this effort is a detailed evaluation of PMIS from a functional perspective to identify how this solution can be leveraged to optimize resource use. To accomplish this task, the successful consultant would need to conduct interviews with the WSIP program and project control staff, IT staff administering/maintain PMIS, to understand the nuances of the PMIS system. The last part of this effort is to survey 3-5 other PM software

system solutions and provide an executive-level analysis on how identified systems could be used on the SSIP.

ESTIMATED DURATION: 2 month effort

ESTIMATED BUDGET: \$64,000

3. DEVELOPMENT OF KEY PERFORMANCE INDICATORS FOR OVERSIGHT COMMITTEES

ABSTRACT: this project entails the development of key performance indicators (KPI) for the RBOC to facilitate various aspects of its oversight functions in the WSIP and planned SSIP. This project entails the evaluation of existing data currently reported and identify key metrics that can be predictive in nature to evaluate health of applicable program: especially remaining work to be done in WSIP. Existing reporting structures may be appropriate for program and project management functions. Oversight committees have a unique charge which requires the development of function-specific tools to independently evaluate cost, time, performance, and/or other mandated function. This effort would create a glossary of KPIs specifically designed for oversight committees to evaluate cost, schedule, and other related performance criteria. This effort would also seek to place KPIs in the context of both WSIP and SSIP so that KPI information can be leveraged across programs and time periods. Other areas of study could include development of historical KPI trends and development of a KPI database for RBOC internal use in evaluating trends over time and perform its own data analysis.

ESTIMATED DURATION: 4 month effort

ESTIMATED BUDGET: \$130,000

4. EVALUATION OF WSIP DISPUTED COSTS

ABSTRACT: This project entails the review of disputed costs on the WSIP program for all active projects. This effort would entail gathering all disputed cost information from each active project. Initial lists can be developed by the WSIP program management team and associated data gathered by the engagement team for analysis. The purpose of this effort is not to audit or create a formal settlement approach to claims but rather to evaluate how much of such disputed costs are being included in trends (projecting costs) and whether such projects are appropriate, too conservative, or not adequate. This effort seeks to provide a monitoring activity on cost elements of the WSIP which may result in budget and/or schedule exposure. Where applicable

the engagement consultant will conduct site visits where disputed costs are material or whose evaluation require site visits (e.g. visit 10 projects with largest amount of disputed costs). Ultimately, this effort would be a critical activity to measure likely hood of achieving most current CAC and SAC forecasts. (This is a marginal analysis on disputed costs only.

ESTIMATED DURATION: 5 month effort

ESTIMATED BUDGET: \$160,000

WSIP Management Responses to RW Block Report, *Evaluation of the Water System Improvement Program, CS-254*

Block's Primary Recommendations

1. Evaluate the possibility of reducing soft costs by eliminating the regional program management structure.

Response: We concur with this recommendation and have already commenced reorganization, which we expect to complete by end of August 2013.

2. Re-evaluate CDR and HTWTP projected staffing levels for opportunities to reduce costs through the use of SFPUC staff and by reducing overall staff.

Response: We concur with this recommendation and have already reduced staffing levels where possible and developed a revised staffing plan for all WSIP staff. We will report on progress by end of August 2013.

3. Evaluate the monthly program management efforts to reconcile all project expenditures using a CMIS system versus a less frequent reconciliation that would be offset by a reduction in program management staff needed to perform this function monthly.

Response: We feel that a business process change of this magnitude would be difficult to implement this late in the program. We agree that our expenditure reconciliation process is resource-intensive and should be optimized. We therefore feel that this recommendation may be more appropriate for the delivery of other capital programs such as the Sewer System Improvement Program (SSIP). Program management is updating costs and schedules once a month in accordance with the WSIP Monthly Statusing Procedure (PM5.05). We consider that this frequency is currently necessary to allow the WSIP management team to identify any issues impacting project budget and schedule as early as possible, and develop mitigation plans to address potential delays and avoid cost overruns at project completion. This is a pro-active way of managing and controlling cost and budget in a fast moving contract environment. It should be noted that the CMIS does not capture expenditure for all project phases. CMIS includes only Construction Contract costs. The Construction Management teams on every project continue to update these expenditures and schedules monthly using the Contractor monthly updates. We will continue to evaluate the Program update frequency as the work progresses.

4. Reconciliation of forecast costs to complete the WSIP compared to historical performance as well as reconciliation of WSIP's bottom up analysis to their top down staffing model using average annual staffing costs.

Response: WSIP currently uses bottom up analysis to forecast remaining cost on a monthly basis. As explained multiple times before to the review team, we do not use a top down staffing model. We will review RWB analysis of historical performance, such as ratio of soft costs to

remaining work, and use this method to identify and resolve any apparent anomalies as we go forward.

Other Comments/Suggestions Raised by Block

- If trends are to be used as forecasting tools, they should reflect forecast changes prior to a change order being identified. (Page 51).

Response: Trends are currently included in construction cost forecasts. The PCM periodically reviews Trends, Potential Changes and Risks for all active projects with the project teams. Every effort is made to forecast changes as Trends in advance of change order definition, but some changes will inevitably occur that do not have a corresponding precedent Trend. So, there will never be a perfect one-to-one correspondence between Change Orders and Trends.

Nonetheless we believe that the inclusion of current Trends in forecasting is extremely valuable and this practice will therefore continue.

- It is recommended that the project team (NIT) review its practices regarding the treatment of trends on work elements that may be contractually bound, but which are only reflected as a change order with no trends, to ensure that the final cost at completion is properly stated. (Page 54)

Response: Concur. We have discussed this in detail with the NIT Construction Management (CM) Team and reconciled and adjusted all Trends and corresponding change orders. We have also clarified this issue with all other CM Teams to assure consistency.

- The application of highly conservative estimates does overstate required project costs at completion; the project team (BDPL) is encouraged to review the current trends to ensure that they reflect the realization expected to be achieved on the BDPL project. (Page 61)

Response: Concur. We continue to review estimated values of Trends with project teams every 2 or 3 months to maintain realistic estimates and eliminate duplications or overlaps. It should be noted that as part of the extensive internal assessment that preceded the recent revision of the WSIP (March 2013 Revised WSIP), the WSIP Management Team reduced significantly the remaining construction contingency of this project.

- We recommend that the WSIP management team re-evaluate current trends and probabilities assigned to their occurrence, and ensure that the data in the CMIS is consistently entered. (Page 62)

Response: Concur. We continue to re-evaluate all Trends. For clarity and consistency, we are eliminating the probabilities assigned to Trends as this has caused some confusion. The probabilities assigned did not influence the Trend values used in forecasting.

- We recommend that, moving forward, more clarity be provided by the WSIP management team on the application of risk probabilities and their use in preparing EAC/SAC forecasts or on the

reasons that risk probabilities are used to test overall budget performance yet not used to forecast costs. (Page 64)

Response: Risk probabilities are assigned according to the probability that an identified risk will occur. Risk values are not used in EAC/SAC forecasting. 80% Risk values derived from the project risk registers are used in addition to EAC/SAC forecasts to test sufficiency of approved contingencies and budgets.

- We recommend that the WSIP management team provide a reconciliation of staffing models presented that use both bottom up staffing levels and top down staffing levels using an average \$282,000/year FTE costs. (Page 73)

Response: As stated above and explained multiple times during the audit, we do not use top-down forecasting.

- We recommend that WSIP management explore the reasons driving an increase in the rate of remaining soft costs under the current forecast when compared to the same soft costs and work delivered historically. (Page 73)

Response: Concur. We will review RWB analysis, particularly with regard to apparent increase in soft cost ratios going forward and provide our response by end of August 2013.



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CONTRACTING WORKING GROUP
CITY AND COUNTY OF SAN FRANCISCO
MINUTES - DRAFT**

**Public Utilities Commission Building
525 Golden Gate Ave., 5th Floor, Baden Room
San Francisco, CA 94102**

March 18, 2013 - 9:00 AM

Special Meeting

1. Call to Order and Roll Call(00:00:00 - 00:00:30)

John Ummel, Chair
Kevin Cheng
Holly Kaufman

The meeting was called to order at 9:18 a.m. On the call of the roll, Members Cheng and Kaufman were noted present. Member Ummel participated via teleconference.

2. Public Comment: (00:00:30 - 00:01:31)

Public Comment: None.

3. Comments on Preliminary Draft: RBOC Evaluation of WSIP by RW Block Consulting, Inc., (CS-254). (00:01:31 - 01:19:00)

Roy Block (RW Block Consulting Inc., via Teleconference); Julie Labonte and Mike Brown (San Francisco Public Utilities Commission); Mark Blake (City Attorney's Office); provided information and responded to questions raised throughout the discussion.

Public Comment: None.

No Actions Taken

4. Approval of RBOC Contracting Working Group Minutes of October 1, 2012. (01:19:00 - 01:21:00)

5. Member Cheng, seconded by Member Kaufman, moved to approve the RBOC Contracting Working Group Minutes of October 1, 2012.

The motion passed by the following vote:

Ayes: Cheng and Kaufman.

Noes: None.

Excused: Ummel (via teleconference).

Public Comment. None.

6. **Future Agenda Items/Meeting Dates.** (01:21:00 – 01:22:00)

7. **Adjournment**

The meeting adjourned at 10:41 a.m.

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